U.S. Department of Agriculture

Office of Inspector General
Southwest Region

# Audit Report

## 2005 Hurricane Initiatives: Aquaculture Grants to States

Report No. 03601-48-Te
October 2007

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

October 18, 2007

REPLY TO
ATTN OF: 03601-48-Te

TO: Teresa C. Lasseter
Administrator
Farm Service Agency

ATTN: T. Mike McCann
Director
Operations Review and Analysis Staff

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: 2005 Hurricane Initiatives: Aquaculture Grants to States

This report presents the results of the subject audit. Your written response to the official draft report, dated September 27, 2007, is included as exhibit C, with excerpts and the Office of Inspector General's position incorporated into the relevant Findings and Recommendations sections of the report.

Your response and subsequently provided documentation contained sufficient information to reach management decisions on all recommendations. Please follow Departmental and your internal agency procedures in forwarding final-action correspondence to the Director, Planning and Accountability Division, Office of the Chief Financial Officer. Please note that Departmental Regulation 1720-1 requires final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Performance and Accountability Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during the audit.

# Executive Summary

***Farm Service Agency 2005 Hurricane Initiatives: Aquaculture Grants to States (Audit Report 03601-48-Te)***

**Results in Brief**

This report presents the results of our audit of the Farm Service Agency's (FSA) $25 million Aquaculture Grant Program (AGP) to six States. The overall objectives of our audit were to determine the adequacy of FSA's management controls over the approval and distribution of the grant funds to States, to include FSA's controls to ensure State agriculture agencies distribute AGP funds to eligible producers in proper amounts that do not exceed the payment limitations. Our review encompassed over $20 million in AGP payments distributed in the States of Alabama, Louisiana, and Mississippi.

Aquaculture producers—who farm animal species such as crawfish, catfish, and alligators—were affected by the 2005 hurricanes. Not only were their livestock killed outright by the hurricanes, but the intrusion of saltwater into their ponds meant that the production of freshwater species was interrupted. In response to this disaster, the Secretary of Agriculture authorized the AGP to make $25 million in block grants available to six States where producers suffered losses due to the hurricanes.[1]

The Office of Inspector General (OIG) initiated this audit to determine how well the FSA administered these block grants. Overall, we found that FSA needs to improve management controls over the approval and distribution of future grant funds such as the funds distributed under AGP in Louisiana, Mississippi, and Alabama. We did not identify any improper payments; however, there were three specific problems with AGP. First, FSA did not allocate the $25 million in AGP funds based on estimated losses, instead, it allocated funds based on number of farms and value of production in the affected areas. Second, Alabama and Mississippi, on their own accord and counter to their agreements with FSA, compensated producers based on criteria other than the producers' losses: Mississippi paid producers based on feed purchased, and Alabama paid producers based on surface acres of water. Third, Louisiana and Mississippi devised different methodologies to distribute funds to producers that resulted in inequitable treatment. Louisiana paid certain counties at a higher rate; however, it could not provide evidence of how it determined which counties would receive this higher rate. Mississippi compensated catfish producers based on the amount of feed they purchased and compensated producers of all other species the amount of their actual loss. Each of the problems is ultimately attributable to FSA's lack of adequate control over how States would implement their programs. As a result,

[1] AGP was authorized under section 32 of the Agricultural Adjustment Act, dated August 24, 1935, which was intended to reestablish producers' purchasing power by making payments in connection with the normal production of any agricultural commodity for domestic consumption.

$25 million in AGP funds was expended in ways that did not necessarily correspond to producers' actual losses.

Our audit was conducted in conjunction with the President's Council on Integrity and Efficiency as part of its examination of relief efforts provided by the Federal Government in the aftermath of Hurricanes Katrina and Rita. As such, a copy of this report has been forwarded to the President's Council on Integrity and Efficiency, Homeland Security Working Group, which is coordinating Inspectors' General review of this important subject.

**Recommendations In Brief**

We recommended that FSA develop a methodology for future grant programs to better direct grant funds to the areas most directly affected and that FSA reallocate unexpended AGP funds to States in need of additional funding.

We also recommended that FSA develop and implement controls for future grant programs to ensure such programs achieve their intended results, and treat program participants equitably.

**Agency Response**

In its September 27, 2007, written response to the report, FSA generally concurred with the findings and recommendations. FSA's written response is included as exhibit C of this report.

**OIG Position**

We accept the management decisions for all of the recommendations.

## *Abbreviations Used in This Report*

| | |
|---|---|
| AGP | Aquaculture Grant Program |
| CFR | Code of Federal Regulations |
| CGP | Catfish Grant Program |
| FSA | Farm Service Agency |
| OCFO/PAD | Office of the Chief Financial Officer, Director, Planning and Accountability |
| OGC | Office of the General Counsel |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| USDA | Department of Agriculture |

# Table of Contents

# Background and Objectives

**Background**

The Secretary authorized the Farm Service Agency (FSA) to fund $25 million in block grants through the Aquaculture Grant Program (AGP). FSA distributed funds among the six States affected by the hurricanes based on the number of aquaculture farms and value of aquaculture sales in eligible counties, as reported in the 2002 Department of Agriculture's (USDA) National Agricultural Statistics Service Census. Based on this method, FSA provided AGP funds in the following amounts: Alabama, $5,037,500; Florida, $3,662,500; Louisiana, $4,512,500; Mississippi, $10,762,500; North Carolina, $312,500; and Texas, $712,500.

The grant agreements charged State agriculture agencies to distribute AGP funds to eligible aquaculture producers. According to the AGP Fact Sheet, an eligible aquaculture producer was defined as a producer who raised aquaculture species in a controlled environment as part of a farming operation, had a risk in the production of such aquaculture species, suffered an aquaculture loss directly resulting from an eligible hurricane in an eligible county during an applicable time period, and had not received assistance under other disaster programs for the same aquaculture loss.

Within FSA, grant responsibility is split between two divisions: FSA's Financial Management Division is responsible for disbursing and monitoring funds, distributing the grant agreements to the States, and collecting the paperwork required by the agreements. The Production, Emergency, and Compliance Division is responsible for drafting the grant agreements and assuring that States comply with the agreement.

The President's Council on Integrity and Efficiency identified and reported procurement and grant management as one of the top six most significant challenges in its 2006 progress report.[2] The identified challenges highlight high-risk activities and performance issues that affect agency operations. The report also stated that grant management oversight warrants continued emphasis.

**Objectives**

The objectives of this audit were to determine the adequacy of FSA's management controls over the approval and distribution of grant funds, including FSA's controls to ensure State agriculture agencies distribute AGP funds to eligible producers in amounts that do not exceed payment limitations.

[2] President's Council on Integrity and Efficiency, "A Progress Report to the President," fiscal year 2006.

# Findings and Recommendations

## Finding 1 — FSA Needs to Improve Controls Over the Approval and Distribution of Aquaculture Grant Program Funds to Ensure Producers are Equitably Compensated for Losses

FSA did not adequately administer AGP to ensure that producers negatively affected by the 2005 hurricanes were equitably compensated for their losses. This occurred because FSA did not have adequate controls in place for overseeing how States administered grants. Instead, FSA officials delegated the responsibility for administering these programs to the States. They did not review how the States chose to operate the program, nor did they monitor the States' programs to determine if AGP funds were distributed equitably to producers. As a result, $25 million in AGP funds was expended in ways that did not necessarily correspond to producers' actual losses.

According to departmental regulations,[3] all managers directing or controlling resources within the Department are responsible for establishing and maintaining controls for their assigned area. Further, Federal regulations[4] state internal controls should be designed to ensure that monitoring occurs in the course of normal operations, is performed continually, and is well established in the agency's operations. Our review disclosed that FSA needs to improve controls over the approval and distribution of AGP funds to ensure producers are equitably compensated for losses.

When they implemented AGP, States were required to provide producers with assistance that would not exceed the losses they suffered due to the 2005 hurricanes. The AGP grant agreement did not, however, specify how States would determine producers' losses, nor did it require that States submit their plan for administering their AGP and for compensating producers for their losses (see exhibit B).

We found three problems with how producers were compensated for their losses under AGP. First, FSA did not allocate AGP funds among the affected States according to the losses producers suffered; instead, FSA allocated funds based on the number of farms and the annual production in each State. Second, Alabama and Mississippi did not always compensate producers according to their losses, but instead compensated producers according to other criteria, such as quantity of feed purchased. Third, within Louisiana and Mississippi, producers were inequitably compensated for their losses. Together, these three problems meant that there were significant disparities in how the $25 million in AGP funds was disbursed to producers affected by the 2005 hurricanes.

[3] Departmental Manual 1110-002, *USDA Management Control Manual*, dated November 29, 2002.
[4] Office of Management and Budget (OMB) *Circular A-123*, "Management's Responsibility for Internal Control," dated December 21, 2004.

FSA Did Not Allocate Funds to States Based on Losses

When FSA allocated funds to the six States affected by the 2005 hurricanes, it did not allocate those funds based on the amount of the losses suffered by producers in affected counties; instead, it allocated funds according to the number of aquaculture farms and the value of annual aquaculture production in affected counties during 2002. This decision meant that a Louisiana parish with a similar number of farms and production to a North Carolina county would receive similar funds, even though the Louisiana parish was much more severely affected by the hurricanes. FSA officials stated that they used this methodology because they believed it was the best available, and that the National Association of State Departments of Agriculture had agreed. As a result of this methodology, however, producers in Louisiana—where the hurricanes resulted in the greatest damage—received relatively small payments, even as funds in North Carolina went unused.

We found that Louisiana had little funds available, relative to the level of damage the State suffered. Of the 346 eligible Louisiana producers, none received the maximum payment of $80,000. The maximum payment any producer received was just under $26,000, and the average payment in Louisiana was under $13,000 (see exhibit B).

Alabama and Mississippi received more AGP funds than Louisiana. Of the 163 eligible Alabama producers, 15 (or 9 percent) received the maximum payment of $80,000. The average payment in Alabama was nearly $31,000. Of the 363 eligible Mississippi producers, 57 (or 16 percent) received the maximum payment of $80,000. The average payment in Mississippi was more than $29,000. To the contrary, North Carolina did not disburse any of the $312,500 in AGP funds it received.

This method of dividing funds among the six States was not well suited to allocating the most funds to areas where the damage was greatest. By allocating funds based on the number of farms and value of production, FSA allocated funds, not to the most damaged areas, but to areas where there were historically more producers and higher sales. This methodology resulted in disparities in how producers were treated, especially in the areas most severely affected by the hurricanes.

We spoke to FSA officials about this situation. FSA agreed that reallocation of the remaining AGP funds was a reasonable solution. FSA should review loss payments and devise a method to reallocate the unexpended AGP funds. For future programs, FSA should develop an allocation methodology that more accurately reflects losses.

Alabama and Mississippi Did Not Compensate Producers Based on Their Losses

Although the AGP grant agreement stated that producers were to be compensated for their losses, Alabama and Mississippi, on their own accord and counter to the agreement, compensated producers based on other criteria, such as a producer's pond acreage or feed purchased. This occurred because FSA did not provide specific instructions for how States were to operate their program, did not require States to submit a plan for the agency’s approval before they processed any applications, and did not monitor how States actually implemented their AGP. As a result, Alabama and Mississippi processed over $15 million (nearly $10.4 million in Mississippi and over $5 million in Alabama) in AGP payments based on determinations unrelated to producers’ actual losses.

The AGP grant agreement required States to provide producers with assistance for aquaculture losses caused by the 2005 hurricanes; the amount of assistance provided to a producer was not to exceed the amount of losses suffered by the producer as a result of the 2005 hurricanes. However, when States implemented AGP, they developed different methodologies for determining how much producers in their State would receive. Louisiana developed a methodology based on the severity of storm damage in affected parishes, but we found that Alabama and Mississippi did not always base the payment producers would receive on the losses they actually suffered:

- Alabama did not require producers to report their losses at all. Instead, State officials paid aquaculture producers $265.50 per surface acre of water, without any evidence that a loss occurred. FSA thus has no assurance that Alabama producers receiving over $5 million in compensation actually suffered a loss, or that producers were not compensated in excess of their losses.

- In Mississippi, catfish producers were compensated at a rate of $42.65 per ton of feed they purchased in 2005. Mississippi arrived at this methodology because it had recently implemented a program that was designed to compensate producers for feed losses. This methodology is, however, inadequate for compensating catfish losses, as there is no relationship between the feed a catfish producer may have purchased and the losses he may have suffered due to a hurricane. FSA thus has little assurance that nearly $10.4 million in payments issued using this methodology corresponds to Mississippi catfish producers’ actual losses.

We concluded that neither Alabama nor Mississippi had arrived at a methodology that compensated producers for their actual losses.

Louisiana and Mississippi Producers Were Treated Inequitably

We also found that producers within the States of Mississippi and Louisiana were not treated equitably. This occurred because the plans these States developed for issuing AGP payments were not well designed to ensure the equitable treatment of all producers. Additionally, FSA performed no formal review of the State programs. As a result, Louisiana and Mississippi issued over $15 million ($10.7[5] million in Mississippi and $4.5 million in Louisiana) in AGP payments in ways that resulted in disparities between producers.

Mississippi treated catfish producers very differently than producers raising noncatfish species, such as crawfish. Producers of noncatfish species were compensated 100 percent of their approved loss up to $80,000, but producers of catfish were compensated based on a rate per ton of feed ($42.65/ton) purchased in 2005. The decision to compensate catfish producers based on the feed they had purchased resulted in catfish producers who did not receive the full $80,000 payment limit being compensated, just over 42 percent of their approved loss. The following examples illustrate this disparity:

- Mississippi approved a crawfish producer's loss as over $37,000 and paid the crawfish producer that amount.

- Mississippi approved a catfish producer's loss as more than $83,000, but because the producer purchased just over 1,623 tons of feed in 2005, he was paid just over $69,000.

- Mississippi approved a catfish fingerling[6] producer's loss as more than $400,000, but because the producer had purchased much less feed for fingerlings, he was paid only about $2,000.

When we asked Mississippi officials if they were aware of the disparities created by their payment system, they stated they acknowledged that several producers of fingerlings had complained about the disparity in payments; however; they did not have additional funds to disburse. Additionally, Mississippi stated that using feed tons was ideal. If a producer was actively engaged in aquaculture, then he was buying feed in 2005.

Louisiana developed a system for issuing AGP payments that was based on the severity of damage occurring due to the hurricanes. Essentially, this system compensated producers in four[7] parishes that were most

[5] Nearly $10.4 million in catfish payments and over .3 million in other aquaculture.
[6] Immature catfish.
[7] Iberia, St. Mary, St. Martin, and Vermillion.

affected by the hurricanes at a higher rate than other parishes. Producers in the parishes that Louisiana decided had received more damage were paid 32 percent of their loss, not to exceed 32 percent of $80,000, while other parishes were paid 23.52 percent of their loss, not to exceed 23.52 percent of $80,000. Louisiana officials, however, could not provide documentation for how they decided which parishes would be compensated at the higher rate, and which at the lower. We noted one parish—Cameron Parish—that was devastated by the hurricanes, but that was paid at the lower rate. When we questioned this apparent disparity, Louisiana officials stated that this was a mistake and that Cameron Parish should have been paid at the higher rate. We concluded that, although Louisiana had begun by developing a system based on severity of storm damage, the State had not adequately determined how parishes would be placed within different bands of damage severity. Consequently, some aquaculture producers, most notably those in Cameron Parish, were not treated equitably.

Overall, we concluded that AGP was not adequately administered to direct funds to areas most affected by the hurricanes and to ensure that producers were compensated equitably based on their losses. Ultimately, the disparities we noted occurred due to the failure of FSA officials to exercise adequate control over the program. FSA does not have extensive experience with administering grants and has no handbook or agency guidance that would assist grant management. When we discussed these problems with FSA officials at the national office, they stated that they relied on States' fiduciary duty having an "official responsibility" to be accountable for its people and comply with the grant agreements. From the outset of the audit, FSA maintained that the grant agreements it signed with the States are their controls. The grant agreement did not, however, provide States with adequate guidance concerning how AGP should be implemented. Furthermore, the existence of a grant agreement does not relieve agency management of its obligation to monitor grant programs, which is well established in Federal and departmental regulations.[8]

We conclude that FSA should develop and implement controls for future grant programs to ensure that its programs achieve their intended results and treat program participants equitably. Those controls should involve requiring States to submit program plans for review prior to issuing payments and requirements for States to conduct a post-payment review to verify that payments have been correctly processed.

### Recommendation 1

For future grant programs implemented as a response to disasters, develop a methodology to direct grant funds to the areas most severely affected by the

[8] OMB *Circular A-123*, "Management's Responsibility for Internal Control," dated December 21, 2004, and Departmental Manual 1110-002, *USDA Management Control Manual*, dated November 29, 2002.

disaster so that the amount of funding more accurately reflects the level of losses. Include reallocating grant funds once loss data is available.

### Agency Response.

FSA concurs with Recommendation 1 with respect to directing grant funds to the areas most severely affected by the disaster so that the amount of funding more accurately reflects the level of losses.

In March 2007, FSA implemented the 2005 Catfish Grant Program (CGP) authorized under section 3012 of the Agricultural Disaster Assistance Act of 2006. CGP funding was allocated after loss data was made available by each State.[9] Based on eligible losses, Louisiana was the only State that received grant funding.

In addition, FSA is currently implementing the 2005-2007 CGP, authorized under Title IX of the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007. The 2005-2007 CGP funding will be allocated based on catfish feed losses that occurred as a direct result of a disaster event described in a presidential or secretarial designation for counties, or contiguous counties having a natural disaster designated by the President or declared by the Secretary from January 2, 2005, through February 27, 2007. Grant funding will be allocated after loss data is available.

### OIG Position.

We accept the management decision for Recommendation 1.

## Recommendation 2

To the extent practicable, reallocate unexpended AGP funds (such as the $312,000 in North Carolina) to States that are in need of additional funding.

### Agency Response.

FSA stated that, at the time of the AGP audit, North Carolina had not disbursed any of the $312,000 of AGP funds. However, the Quarterly Expenditure Report dated June 30, 2007, provided that North Carolina disbursed all ($312,000) of its AGP funds. In addition, the Quarterly Expenditure Report dated June 30, 2007, provided that Mississippi had refunded $24,905.16 and Texas had refunded $51,474.99 of unused AGP funds.

[9] FSA provided OIG with copies of the loss data that was collected for the 2005 CGP. Due to the excess availability of funds relative to the reported losses, it was not necessary to factor the amount of funds issued to the States. However, FSA stated that, if it was necessary, FSA was prepared to factor funding issued to the States based on their percentage of the total loss reported.

FSA is consulting with the Office of the General Counsel (OGC) to determine if additional expense under AGP is justified and if the unused funding, authorized under clause (3) of section 32 of the Agricultural Act of August 24, 1935, can be reallocated to States that are in need of additional funding.[10]

**OIG Position.**

We accept the management decision for Recommendation 2.

## Recommendation 3

For future grant programs, institute adequate controls to ensure such programs achieve their intended result and that producers receiving program payments, such as the $25 million in AGP funds, are treated equitably. At a minimum, require each State, before it issues any payments, to submit for FSA's review a plan describing how the State intends to compensate producers.

**Agency Response.**

FSA concurs with Recommendation 3 with respect to instituting adequate controls to ensure grant programs achieve their intended result and that producers receiving program payments are treated equitably.

Under the 2005-2007 CGP, FSA is requiring each State to submit a work plan that provides a summary of how the State will implement the program, including, but not limited to, program provisions, payment calculations, and loss requirements. In addition, the grant agreements between the States and FSA require the States to conduct internal random reviews of the program to ensure applicants are equitably compensated for losses. State work plans must include the State's methodology for conducting internal reviews of the program to ensure applicants are equitably compensated for losses.[11]

**OIG Position.**

We accept the management decision for Recommendation 3.

[10] On October 9, 2007, FSA provided OIG with documentation of OGC's September 25, 2007, response concerning the actions necessary for FSA to reallocate the remaining AGP funds. Generally, OGC advised that, in order to reallocate the unused AGP funds, FSA would have to amend the Memoranda of Understanding with the States and publish regulations, starting with a proposed rule that would include justification for the specific reallocation of funds. FSA informed OIG that, based on the information OGC provided, FSA would not be reallocating the remaining AGP funds.
[11] FSA subsequently provided to OIG a copy of the 2005-2007 CGP agreement between the State of Mississippi and FSA, dated September 9, 2007.

# Scope and Methodology

We reviewed FSA's 2005 AGP grants to three of the six States that were awarded funds (Alabama, Louisiana, and Mississippi). Together, these States received over $20 million of the $25 million in AGP funds (80 percent). Our fieldwork began March 28, 2007, and ended June 20, 2007. To verify the propriety of individual payments, we judgmentally selected 10 of 389 (2.6 percent) of the 2005 AGP applications in Mississippi. The sampled applications accounted for $649,025 of the $10.7 million (6 percent) of AGP payments issued in Mississippi. Mississippi was selected because it was the largest recipient of AGP funds.

To accomplish our objectives, we interviewed officials at the FSA national and State offices to verify and gather program data and producer information. Our review included administrative and financial records, as well as regulations, policies, and procedures used to administer AGP. We visited three State agriculture agencies (Alabama, Louisiana, and Mississippi) where we interviewed personnel and reviewed AGP documentation. We reviewed the controls that State agriculture agencies had in place to ensure that producers did not receive dual benefits under AGP and other disaster relief programs, including Livestock Indemnity Program II and the CGP. We also reviewed the controls the State agriculture agencies had to ensure that producers did not exceed the $80,000 payment limitation. Selected producers in Mississippi were reviewed and site visits were conducted at the producers' operations. We also contacted officials in Florida and Texas to gain additional information.

Our audit was conducted in accordance with generally accepted Government auditing standards. Accordingly, the audit included such tests of program and accounting records as considered necessary to meet the audit objectives.

# Exhibit A – *Summary of Monetary Results*



| FINDING NUMBER | RECOMMENDATION NUMBER | DESCRIPTION | AMOUNT | CATEGORY |
|---|---|---|---|---|
| 1 | 3 | FSA Controls Over Approval And Distribution Of Grant Funds Need Improvement | $25,000,000 | Funds To Be Put To Better Use – Management Or Operating Improvements/Savings |
| **TOTAL MONETARY RESULTS** | | | $25,000,000 | |

# Exhibit B – *Summary Data on Payments as of March 2007*



| STATE | TOTAL PAYMENTS TO PRODUCERS | NUMBER OF PAYMENTS | AVERAGE LOSS[12] | AVERAGE PAYMENT | PAYMENT:LOSS RATIO |
|---|---|---|---|---|---|
| **Mississippi** | $10,737,595 | 363 | $51,378 | $29,580 | 0.58 |
| **Louisiana** | $4,495,178 | 346 | $48,820 | $12,992 | 0.27 |
| **Alabama** | $5,037,500 | 163 | No Data | $30,904 | N/A |

[12] Because of limited data available, losses in Mississippi and Louisiana were capped at $80,000.

USDA

**United States Department of Agriculture**

Farm and Foreign Agricultural Services

Farm Service Agency

Operations Review and Analysis Staff

1400 Independence Ave, SW
Stop 0540
Washington, DC
20250-0501

SEP 2 7 2007

**TO:** Director, Farm and Foreign Agriculture Division
Office of Inspector General

**FROM:** Philip Sharp, Chief
Audits, Investigations, and State and County Review Branch

**SUBJECT:** Audit 03601-48-TE – 2005 Hurricane Initiatives: Aquaculture Grants to States

Attached is the Farm Service Agency's Deputy Administrator for Farm Programs and the Financial Management Division Director's response to the official draft of the subject audit.

Please address any questions to Karren Fava 720-6152.

Attachment

USDA

United States Department of Agriculture

Farm and Foreign Agricultural Services

Farm Service Agency

1400 Independence Ave, SW
Stop-0517
Washington, DC
20250-0517

For 24 9-27-

**TO:** Philip Sharp
Chief, Audits, Investigations, and State and County Review Branch

**THROUGH:** Dennis J. Taitano Dennis J. Taitano SEP 25 2007
Director, Financial Management Division

**FROM:** John A. Johnson FOR SEP 26 2007
Deputy Administrator for Farm Programs

**SUBJECT:** Response to the Office of the Inspector General (OIG) Official Draft Audit Report No. 03601-48-Te - 2005 Hurricane Initiatives: Aquaculture Grants to States

This is in response to your memorandum of September 6, 2007, requesting a written response to OIG Official Draft Audit Report No. 03601-48-Te.

Provided below are responses to the three recommendations to the Deputy Administrator for Farm Programs provided in the subject draft audit report.

**Recommendation 1:**

For future grant programs implemented as a response to disasters, develop a methodology to direct grant funds to the areas most severely affected by the disaster so that the amount of funding more accurately reflects the level of losses. Include reallocating grant funds once loss data is available.

**Response to Recommendation 1:**

The Farm Service Agency (FSA) concurs with Recommendation 1 with respect to directing grant funds to the areas most severely affected by the disaster so that the amount of funding more accurately reflects the level of losses.

In March 2007, FSA implemented the 2005 Catfish Grant Program (CGP), authorized under Section 3012 of the Agricultural Disaster Assistance Act of 2006. CGP funding was allocated after loss data was made available by each State. Based on eligible losses, Louisiana was the only State that received grant funding.

In addition, FSA is currently implementing the 2005-2007 Catfish Grant Program, authorized under Title IX of the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007. The 2005-2007 Catfish Grant Program funding will be allocated based on catfish feed losses that occurred as a direct

**Response to Recommendation 1 (cont'd.):**

result of a disaster event described in a Presidential or Secretarial designation for counties, or contiguous counties having a natural disaster designated by the President or declared by the Secretary from January 2, 2005, through February 27, 2007. Counties declared disasters by the President may be eligible even though agricultural loss was not covered by the declaration if there has been a FSA Administrator's Physical Loss Notice covering such losses. Grant funding will be allocated after loss data is available.

**Recommendation 2:**

To the extent practicable, reallocate unexpended Aquaculture Grant Program (AGP) funds (such as the $312,000 in North Carolina) to States that are in need of additional funding.

**Response to 2:**

At the time of the AGP audit, North Carolina had not disbursed any of the $312,000 of AGP funds. However, the Quarterly Expenditure Report, dated June 30, 2007, provided that North Carolina disbursed all ($312,000) of their AGP funds. In addition, the Quarterly Expenditure Report, dated June 30, 2007, provided that Mississippi had refunded $24,905.16 and Texas had refunded $51,474.99 of AGP unused funds.

FSA is consulting with the Office of the General Counsel to determine if additional expense under AGP is justified and if the unused funding, authorized under clause (3) of Section 32 of the Agricultural Act of August 24, 1935, can be reallocated to States that are in need of additional funding.

**Recommendation 3:**

For future grant programs, institute adequate controls to ensure such programs achieve their intended result and that producers receiving program payments, such as the $25 million in AGP funds, are treated equitably. At a minimum, require each State, before it issues any payments, to submit for FSA's review a plan describing how the State intends to compensate producers.

**Response to 3:**

FSA concurs with Recommendation 3 with respect to instituting adequate controls to ensure grant programs achieve their intended result and that producers receiving program payments are treated equitably.

Under the 2005-2007 Catfish Grant Program, FSA is requiring each State to submit a work plan that provides a summary of how the State will implement the program, including, but not limited to, program provisions, payment calculations, and loss requirements. In addition, the grant agreements between the States and FSA require the States to conduct internal random reviews of the program to ensure applicants are equitably compensated for losses. State work plans must include the State's methodology for conducting internal reviews of the program to ensure applicants are equitably compensated for losses.